

Final reflections:

Emerging Market Multinational Enterprises in East Central Europeⁱ

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Although the current status of East Central European (ECE) countries in the process and level of their integration into global business varies but a rather general phenomenon is the exhaustion of the foreign direct investment (FDI)-led development model, at least its dominant version of the 1990s and early 2000s. On the one hand this is a result of multinational affiliates' isolated and strongly integrated presence in a strictly designed international cooperation systems with no physical contact to local firms to deliver spillovers. On the other hand, even those affiliates that are entangled in the development of local supplier networks deliver spillovers only to a limited level. Thus, they are not becoming primary players of innovative local business clusters, while the design of affiliates' activity range is usually specialized on low value-added segments of global value chains (GVC).

One can observe changes in the perception of multinational business in the ECE region as a result of the slowing down of economic progress based on the FDI-led economic model, increasing dependency and the rather disadvantageous changes in the institutional frames of global business conduct. FDI attraction remained an important policy target, however, some governments applied investment incentives on selective basis and differentiated among “good” and “bad” investments. Hungary and Poland, for instance, continued the support of manufacturing investments but made efforts to limit the strong multinational influence in some sectors. The Hungarian government also signed strategic cooperation agreements with many of the largest, most important multinational companies and initiated an Eastern as well as a Southern opening policy to diversify its economic relations and to attract non-EU investors. As concerns attraction policies, OECD's FDI Regulatory Restrictiveness indices show that advantageous investment conditions remained in place in the ECE countries.

It seems that the ECE region will continuously rely on the primary role of multinational business, but the governments will use investment attraction policies more selectively. There will be further efforts to strengthen the locally owned companies to access multinational companies' GVCs. Also, more intensive direct state intervention occurs in specific markets. The support of local big business and bourgeoisie will be another main target of economic policies. This should counterbalance the asymmetric dependence on global business, and provide new impetus for economic progress.

When it comes to emerging market multinational enterprises (EMNEs), their role as a global investor has grown rapidly in recent decades. Although the majority of these companies targets their neighboring regions, mainly developing countries, their presence in the more developed regions, including Europe became more visible in the past two decades. Although EMNE's economic impact on ECE countries is still relatively small but has accelerated significantly in the past two decades since ECE countries have become more open to new business

opportunities, especially after the global economic and financial crisis of 2008, with the intention of decreasing their economic dependency on Western (European) markets. At the same time, as mentioned above, ECE's appetite for investment has not been saturated yet.

China has pursued both proactive and interventionist strategies at the same time to promote the international expansion of Chinese companies in various sectors. The prominent role of the state in initiating and intervening in corporate capital outflows seems to be a distinctive element in the behaviour of Chinese MNEs when compared to multinational corporations of developed countries. While based on Chinese as well as international statistics, Asia continues to be the largest recipient of total Chinese outward FDI, accounting for nearly three-quarters, however, according to project-level analysis, 60 per cent of Chinese outward FDI is aimed at developed economies, including the EU.

Chinese investment in ECE countries constitutes a small share in China's total FDI stock, even if compared to Chinese total FDI stock in Europe, and is quite a new phenomenon. Nevertheless, Chinese FDI in the ECE region is on the rise and may increase further as a result of Chinese initiatives such as the 17+1 cooperation or the Belt and Road project. Chinese companies target telecommunication, electronics, chemical industry and transportation in the ECE region and often use intermediary countries and companies for their investments. The analysis of the motivations behind Chinese outward FDI in ECE shows that Chinese MNEs mostly search for markets. ECE countries' EU membership allows them to treat the region as a 'back door' to the affluent EU markets; moreover, Chinese investors are attracted by the relatively low labour costs, skilled workforce and market potential. It is characteristic that their investment patterns in terms of country location resemble that of the world's total FDI in the region. However, macroeconomic or structural factors do not fully explain the decisions behind Chinese FDI in the ECE region. This indicates that institutional factors - supranational as well as national level factors - may be crucial for Chinese companies when deciding on investment locations. Moreover, a causal link seems to exist between the level of political relations and the amount of Chinese investment in ECE countries, i.e. good political relations between the respective host country and China seem to play an important role in attracting investment from Chinese state-owned as well as private companies.

The driving force for Indian companies to internationalize is to improve their competitiveness by accessing advanced technologies which they can build into their home-based production systems. Consequently, about two-thirds of Indian outward FDI went to developed western countries, mostly notably to the EU, including the ECE region, while only the remaining third was placed in developing countries. Indian outward FDI entering into ECE are indeed technology- and asset-seeking type of investments, as the ECE region is well embedded in German GVCs, hosting key manufacturing activities as lower-cost locations. The most important regional networks which Indian companies targeted are automotive, pharmaceutical, IT and BPO services. From these locations Indian multinationals are better able to access state of the art technologies which they can transfer back to their parent companies. ECE also serves as an entrance to the European Single Market. Many Indian companies relocate operations first here to gain experience, but when they obtained adequate knowledge and experience they might move forward to the core of the European market, using ECE as a gateway.

When it comes to the motivation of the other important Asian investors - South Korea, Taiwan, Malaysia, Thailand, Indonesia and Vietnam - in the ECE region, geographical distribution of outward FDI varies but generally characterized by Asian orientation, which is often underpinned by governmental policy. Therefore, the EU - including ECE - is not among the

primary regional destination for outward FDI. Despite the low shares of these countries in non-EU inward FDI in the EU, some of them - especially South Korea and Taiwan - are among the most important non-European FDI sources in the ECE region, while FDI from the four ASEAN countries are very small. Companies originated from the six Asian countries have been operating in several sectors of the ECE region, but the automotive and electronics industry are the most preferred ones. Having analysed the motivations and pull factors for the investments of those Asian companies (mainly South Korean and Taiwanese) operating in these two sectors, market- as well as efficiency-seeking motivations are most prominent. The main pull factors of the ECE countries are the access to the EU market, relatively low-cost production base, skilled labour, government incentives, and relatively developed infrastructure. In addition, many components manufacturers of the six Asian countries have followed their customers investing in ECE, that is, the presence of large (South Korean or Taiwanese) manufacturing companies is also a significant pull factor.

Domestic push factors are also very important in driving Russian corporate decisions to invest abroad, including the state's role in directly promoting foreign expansion of both the largest Russian multinationals as well as private companies. Due to the specific features of Russian outward FDI - such as round-tripping and trans-shipping - and the lack of statistics referring to the ultimate host/investing country, the role of host countries is difficult to estimate. Nevertheless, Europe's leading role in Russian outward FDI remains unchallenged, though Europe's share has been falling. The five ECE countries are not among the main destinations, though Russian FDI in Czechia or Poland is far from being negligible. Nevertheless, company data demonstrate that the activities of Russian investors in ECE countries have been paved with failures. The low share of Russian investment in ECE countries may be referred to as business opportunities that the Russian parties have failed to exploit.

Russian investment in ECE countries is dominated by market-seeking and, to a lesser extent, efficiency-seeking projects carried out by state-owned or state-related private firms. Most Russian FDI has been done in hydrocarbons, iron, steel and machinery, but banking, software solutions, electronic production, real estate and even the light industry have also been targeted. When analysing the activities of Russian multinationals in ECE countries, we found only traces of acquiring competitive advantages or ownership advantages, while identified investment aiming at exploiting existing advantages. As for Russian firms' asset-based advantages, it is obvious that their access to domestic raw materials and related technical knowledge are very important for their investments in ECE countries, as investment in oil, gas and metals are predominant, while technology-based firms show characteristics similar to developed-country multinationals.

Turkey has also become one of the leading investors among emerging economies in its neighbouring regions in recent years. The rising presence of Turkish investments abroad is due to both economic and political reasons as the rapidly growing - and structurally changing - Turkish economy created a bunch of internationally competitive sectors and firms, while the changing Turkish foreign policy also promoted the active presence of Turkish companies in neighbouring countries. As statistics show, the majority of Turkish outward FDI went to European countries, but it is not concentrated solely in developed Western European countries, a lot of Turkish capital has flown to Eastern Europe and the Balkans.

When looking for the motivations of Turkish MNEs, one can find different reasons depending also on the type of firms and the sectors they are active in. There are Turkish firms making resource-based investments, especially in Russia, in Central Asia and in the MENA region but

also in some ECE countries. Market-seeking is also a common motivation, and they are able to exploit their country-specific advantages: the experiences earned on the relatively competitive, but institutionally underdeveloped Turkish domestic market. A continuously increasing motivation is brand-building and the upgrading of their technologies, in order to improve EU costumers' perceptions and attitudes towards their products and to be able to compete on more developed markets.

Brazilian OFDI reveals a very concentrated pattern in terms of sectoral composition, mainly dominated by the extractive and commodities sectors, and also in terms of company size. There are, however, some outstanding examples in more technological-intensive sectors, such as aviation industry or information technology. As of push factors, government policies have actively - both directly and indirectly - influenced Brazilian companies' internationalization decisions, especially in the mid-2000s. Although the Brazilian going global policy was a more defensive and limited one compared to the Chinese strategy, when compared to some regional counterparts (such as Chile or Argentina), the proactivity of the Brazilian Development Bank stands out. When looking at host country determinants, the expansion of Brazilian firms seems still very much determined by geographical and cultural proximity and tax issues. Depending on the very specific cases and companies, the availability of natural resources, human capital and large host markets might play very different role during the locational decisions. At the same time, due to their home country experiences, Brazilian firms tend to be highly resilient to macroeconomic or political instabilities, and often less affected by institutional voids.

The ECE region does not represent any special emphasis in the internationalization strategies of Brazilian (or even Latin American) firms, on the contrary, there are only a few companies, which are actively present in this region. Among the real driving forces of those few Brazilian companies, which have successfully invested in the ECE region, diaspora, personal ties and/or informal relations, the relatively low labour costs, the presence of other Brazilian firms (agglomeration effect), the relatively high skilled labour force and a thriving local market can be mentioned. Even though the ECE region was by far not among the main destinations of the Brazilian outward investments, still some outstanding success stories can be found.

South Africa MNEs internationalisation has started earlier than other EMNEs. Their investment decisions are mainly driven by home country push factors fuelled by the economic, social and political legacies of the apartheid regime. The main domestic constraints have to do with - among others - the slow and fluctuating GDP growth, the stratified nature of the demand, the rigid labour market, lack of skilled labour force, inflexibility in factor market, brain drain, and the need for risk aversion deriving from uncertain economic and political climate in the country. These push factors lead to market and efficiency-seeking strategies of South African MNEs, as operation outside of the country offers better opportunity to reduce costs, risks and increase productivity. The geographical direction of South African outward FDI contradicts the so-called Uppsala model of internationalisation that tends to focus on the neighbouring, ethnically similar countries first and then moving further to more distant developed countries. By contrast, more than half of South African MNEs' outward FDI was directed to the European markets.

Pull factors primarily concern the recipient country's political, macroeconomic and institutional conditions. These factors provide a plethora of opportunities for market-, resource- and asset-seeking companies. The ECE region is a newly emerging destination for South African investors, with the most important destinations being Poland, followed by the Czech Republic and Hungary. Investment flows are hectic, showing high volatility depending on actual transactions. This volatility is a function of South African investors' reluctance to plan for the

long run due to geographical distance and the uncertainties in the home country. Many companies invest via third countries to take advantage of more favourable tax or regulatory treatment.

As presented in the pages above - as well as through the chapters of this volume - the rise of EMNEs is a new and dynamic process, while their approach towards their host economies are relatively unique compared either to the more developed MNEs or to each other. There are many differences in their internationalisation strategies or major push and pull factors behind their localisation decision, however, one can also find several similarities, even when it comes to their presence in the ECE region.

As mentioned earlier, several types of push factors contribute to the internationalization of EMNEs. Among institutional push factors, both the home country diaspora and government policy seem to be important for the majority of EMNEs. Public policies to promote outward FDI came onto the development agenda for almost all emerging countries during the 90s or the early 2000s. There is a number of public policy areas where the state can directly or indirectly influence the internationalization of EMNEs, labour policies, trade policies, privatization and taxation are just some of them. Nevertheless, when it comes to emerging markets, there are also explicit policy interventions that directly promote the international expansion of EMNEs. There is clear evidence for such direct intervention in the case of China, Russia, Brazil and Turkey in particular.

The ECE region is certainly not among the most important destinations of EMNEs' localization strategies but their outward FDI stock has increased in the past decades, particularly after 2004 and 2008: after the countries' accession to the EU and the economic and financial crisis, respectively.

Majority of EMNEs are investing in ECE countries in order to enter new markets, thus market-seeking is the most prominent motivation for EMNEs. By entering ECE markets, EMNEs can not only avoid customs duties and non-tariff restrictions but can also access the whole EU market, moreover - through free trade agreements between the EU and third countries - even further markets throughout the world, in, for example the Mediterranean, North America or the Commonwealth of Independent States. Efficiency-seeking motives, however, also play a role, where the labour market is to be considered as one of the most important elements: a skilled labour force is available in sectors for which most EMNEs interest is growing, with labour costs being lower in ECE than the EU average. Agglomeration effect - when EMNEs from the same country increase their efficiency by locating close to each other - and demonstration effect - whereby EMNEs that has already invested in ECE send signals to new potential investors on the reliability and attractiveness of the host country - seems to be important, too. Corporate taxes or various tax incentives are among the further potential pull factors of ECE.

As far as the sectoral preference of EMNEs are concerned, majority of EMNEs show preference for manufacturing industries, especially in electronics, IT and automotive sector, while Russia (where investment in oil, gas and metals are predominant) and South Africa (where real estate, retail trade, e-commerce, consumer goods and healthcare sectors attract investors) seems to be an exception.

In many cases EMNEs use firms located in other European countries - Luxembourg, the Netherlands, Switzerland, Cyprus, etc. - as the direct investor company. The reason for this can be tax optimisation, the aim of decreasing bureaucratic burdens, the ability to hide their real origin or to nominate a regional headquarter. In some cases, EMNEs might use their investment

strategy in other developing or transitional economies - that are located close to advanced markets - as a catch-up strategy to access technology, increase domestic capacity, upgrade production processes, boost competitiveness, augment managerial experience and access financial markets for their global aspirations. ECE may also serve as a springboard for EMNEs to the core EU markets. Through their presence in ECE, EMNEs can prove that they are capable of meeting EU standards, adopting to local regulations as well as to compete with developed MNEs on developed markets.

As demonstrated in this volume, macroeconomic or structural factors do not entirely explain EMNE's location decisions when investing in ECE: institutional factors - such as, for instance, institutional stability, privatization opportunities, investment incentives or golden visas - also seem to be crucial for all of the analysed EMNEs. Moreover, personal connections and/or good political relations may also play a role.

When it comes to EMNEs' impact on the ECE region, it is difficult to evaluate the real effects as of now, since the phenomenon of EMNEs in ECE is rather new. However, so far it seems that EMNEs - especially those that are followed by their suppliers and service companies - do not contribute to the development of host country firms and don't generate, for example, locational advantages through their own activities. Majority of EMNEs indeed prefer to cooperate with companies from their home country. As a result, the chances for local enterprise development - for example through linkages with suppliers - are little or at least, limited. However, there are some exceptions, especially in the case of those companies that arrived several years ago. Consequently, there might be a potential for positive spillover effects after a certain period of time.

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